

Report
of the
Examination of
Lebanon Clyman Mutual Insurance Company
Lebanon, Wisconsin
As of December 31, 2001

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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June 21, 2002

Honorable Connie L. O'Connell
Commissioner of Insurance
State of Wisconsin
121 East Wilson Street
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Commissioner:

In accordance with your instructions, an examination has been performed as of December 31, 2001, of the affairs and financial condition of

LEBANON CLYMAN MUTUAL INSURANCE COMPANY
Lebanon, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The last examination of this company was made in 1997 as of December 31, 1996. The current examination covered the intervening time period ending December 31, 2001, and included a review of such subsequent transactions deemed essential to complete this examination.

The Summary of Examination Results contains elaboration on all areas of the company's operations. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company was originally organized as a town mutual insurance company on December 12, 1887, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Lebanon Farmers Mutual Insurance Company. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period under examination, there were three amendments to the articles of incorporation and one amendment to the bylaws.

In 1998, the company reworded and submitted a change to its bylaws that was first approved by the policyholders in 1996, but not approved by OCI as it was in conflict with Wisconsin statutes. The original language limited member eligibility to the Board to non-agent members. Revised language which provides that any member of the company is eligible to be a director, but once elected, shall not also operate as an agent of the company was approved by this office.

Two changes to the articles of incorporation occurred in 1999. The first added two additional counties to the area of business, Green Lake and Walworth. The second changed the number of directors from nine to seven.

The third change to the articles of incorporation occurred in 2002, and provided for the company's expansion into Columbia and Ozaukee counties.

A review of the certificate of authority revealed that the company is currently licensed to write business in the following counties:

Dodge, Jefferson, Washington, Waukesha, Dane, Fond du Lac, Green Lake, Walworth, Columbia, and Ozaukee

The company is currently licensed to write property, including windstorm and hail, and nonproperty insurance.

A review was made of the policy and application forms currently used by the company. The company issues an approved policy with or without endorsements for terms of up to one year, with the policy term matching the billing term, and premiums payable on the advance premium basis. Policy fees charged policyholders are retained by the company.

Business of the company is acquired through twenty-seven agents, none of whom are directors of the company. Agents are presently compensated for their services as follows:

Type of Policy	Compensation
Farmowner's	13%
Standard Farmowners	13%
Commercial	13%
Homeowners	13%
Standard Dwelling	13%
Homeowner's	13%

If an agent's annual net written is greater than \$50,000, commission is 15%.

Agents do not have authority to adjust losses. Losses are adjusted by members of the adjusting committee who are appointed annually by the board of directors. Losses over \$5,000 are

adjusted by two adjusters. Inspections are paid at \$40 each and adjusters receive \$50 for each loss adjusted.

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

Board of Directors

The board of directors consists of seven members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board may be filled by the directors for the interim to the next annual meeting when a director shall be chosen for the unexpired term.

The current board of directors consists of the following policyholders of the company:

Name	Principal Occupation	Residence	Expiry
Curtis C. Becker	Farmer	Iron Ridge	2002
Gene Gerth	Farmer	Iron Ridge	2002
Samuel Stangler	Farmer	Watertown	2003
David Manning	Farmer	Juneau	2003
Harvey A. Radtke	Custodian/Retired	Watertown	2004
Ellward Kuehl	Farmer/Retired	Watertown	2004
Dorothy Kuehl	Secretary/Treasurer/Town Clerk	Lebanon	2004

Members of the board currently receive \$50 for each meeting attended and \$.345 per mile for travel expenses.

Officers

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified.

Officers serving at the present time are as follows:

Name	Office	2001 Salary
Harvey A. Radtke	President	\$ 3,000
Curtis C. Becker	Vice President	600
Dorothy Kuehl	Secretary	595
Sam Stangler	Treasurer	1,200
Judith Bickel	Manager	30,600

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors.

The committees at the time of the examination are listed below:

Adjusting Committee

Harvey Radtke, Chair

Curtis Becker

Judith Bickel

Growth of Company

The growth of the company during the past five years as compiled from its filed annual statements was as follows:

Year	Net Premiums Earned	Net Losses and LAE Incurred	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
1997	\$304,859	\$339,672	1,568	\$(168,624)	\$1,291,870	\$945,486
1998	304,233	224,523	1,523	(88,626)	1,224,368	894,306
1999	306,646	170,210	1,408	(3,008)	1,167,877	884,424
2000	334,777	132,158	1,263	57,766	1,223,379	976,171
2001	339,429	366,995	1,216	(179,184)	1,144,358	792,281

The ratios of premiums written, gross and net, to surplus as regards policyholders during the past five years were as follows:

Year	Gross Premiums Written	Net Premiums Written	Ending Surplus	Writings Gross	Ratios Net
1997	\$577,111	\$297,634	\$945,486	61%	31%
1998	579,054	286,214	894,306	65	31
1999	561,093	266,496	884,424	63	30
2000	571,827	330,285	976,171	59	34
2001	574,114	345,018	792,281	72	44

For the same period, the company's operating ratios were as follows:

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Earned Premiums	Loss Ratio	Expense Ratio	Composite Ratio
1997	\$339,672	\$163,408	\$304,859	111%	55%	166%
1998	224,523	183,488	304,233	74	64	138
1999	170,210	153,941	306,646	56	58	113
2000	132,158	167,630	334,777	39	51	90
2001	366,995	159,149	339,429	108	46	154

Surplus has declined four of the five years under examination, although it remains adequate relative to the company's premium written. Net premium earned has increased 11.3% since 1997.

Although the company is writing fewer policies, there is a larger coverage and premium per policy. The company has also consolidated policies. The loss ratio showed a significant decrease from 1997 to 2000, but increased to 108% in 2001. The company increased its retention in 2001 from 200,000 to 300,000 in order to save on reinsurance premiums.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty. The treaty contained a proper insolvency clause and complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retentions of risk complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Wisconsin Reinsurance Corporation
Effective date:	January 1, 2002
Termination provisions:	Either party may terminate this contract as of any subsequent January 1 by giving to the other party at least 90 days' advance notice in writing

The coverages provided under this treaty are summarized as follows:

- | | |
|----------------------|---|
| Type of contract: | Class A Liability |
| Lines reinsured: | All liability (nonproperty) perils |
| Company's retention: | \$750 per occurrence |
| Coverage: | 100% of any loss and loss adjustment expense in excess of \$750 for each and every loss occurrence. Subject to policy limits of \$1,000,000 for bodily injury and property damage liability, and \$5,000 per person/ \$25,000 per accident for medical payments |
| Reinsurance premium: | 75% of liability premiums |
- | | |
|----------------------|---|
| Type of contract: | Class B First Surplus |
| Lines reinsured: | All property perils |
| Company's retention: | When the company's net retention is \$300,000 or more, the company may cede on a pro rata basis up to \$800,000. When net retention is less than \$300,000, the company may cede on a pro rata basis up to 50% of such risk. In addition, the company shall retain, as an annual aggregate deductible, an amount equal to 10% of the loss and loss adjusting expenses |
| Coverage: | Pro rata share of each and every loss including LAE corresponding to the amount of the risk ceded |
| Reinsurance premium | The pro rata portion of all premiums, fees and assessments charged by the company corresponding to the amount of each risk ceded |
| Ceding commission: | 15% sliding scale
Min/Max = 15/35% |
- | | |
|-------------------|--|
| Type of contract: | Class C-1 Excess of Loss - First Layer |
| Lines reinsured: | All property perils |

Company's retention:	\$30,000 per risk and a \$25,000 annual aggregate deductible
Coverage:	100% of any loss occurrence, excluding LAE, in excess of \$30,000 up to \$70,000
Reinsurance premium:	The sum of the 4 prior years losses divided by the total net premium written for the same period multiplied by 1.25%. Min/Max rates = 6%/21% of the current net premium written. The rate for the current annual period is 6%.
4. Type of contract:	Class C-2 Excess of Loss - Second Layer
Lines reinsured:	All property perils
Company's retention:	\$100,000
Coverage:	100% of any loss occurrence, including LAE, in excess of \$100,000 up to \$200,000
Reinsurance premium:	4% of net premium written, minimum premium of \$13,920
5. Type of contract:	Class D/E Stop Loss
Lines reinsured:	All property perils
Company's retention:	<u>72 hour Catastrophe</u> —\$75,000 of each loss occurrence arising out of the same event during any period of 72 consecutive hours <u>Stop Loss</u> —Annual aggregate losses, excluding LAE, equal to 75% of net premiums written
Coverage:	<u>72 hour Catastrophe</u> —100% of the loss occurrence in excess of \$75,000 up to \$250,000 per occurrence and \$500,000 per annual period <u>Stop Loss</u> —100% of annual aggregate losses, including LAE, which exceed an amount equal to 75% of the company's net premiums written subject to a minimum retention of \$277,000
Reinsurance premium:	The sum of the prior 8 years losses incurred divided by the total net premiums written for the same period multiplied by 1.25%. Min/Max rate of 8.5%/25% of net premium written. Minimum premium for current year is \$42,480. The rate for the current annual period is 11.54%.

III. FINANCIAL DATA

The following financial statements were filed with the Commissioner of Insurance in the company's annual statement at December 31, 2001. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Policyholders' Surplus."

Lebanon Clyman Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2001

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash in Company's Office	\$ 50	\$	\$	\$ 50
Cash Deposited in Checking Account	2,478			2,478
Cash Deposited at Interest	235,784			235,784
Bonds (at Amortized Cost)	402,284			402,284
Stocks or Mutual Fund Investments (at Market)	443,917			443,917
Real Estate (Net of Accumulated Depreciation and Encumbrances)	39,864			39,864
Premiums and Agents' Balances In Course of Collection	5,300			5,300
Investment Income Due or Accrued		9,685		9,685
Electronic Data Processing Equipment – Excluding Software (Cost Less Accumulated Depreciation)	3,857			3,857
Fire Dues Recoverable	63			63
Other Assets:				
Federal Income Tax Refund Receivable	1,076			1,076
Furniture and Fixtures	<u>6,655</u>	<u> </u>	<u>6,655</u>	<u> </u>
TOTALS	<u>\$1,141,328</u>	<u>\$9,685</u>	<u>\$6,655</u>	<u>\$1,144,358</u>

Liabilities and Surplus

Net Unpaid Losses	\$ 101,000
Unpaid Loss Adjustment Expenses	4,800
Commissions Payable	4,550
Unearned Premiums	200,547
Reinsurance Payable	18,998
Amounts Withheld for the Account of Others	1,430
Other Liabilities:	
Expense Related	
Accounts payable	7,210
Accrued Property Taxes	1,342
Nonexpense Related	
Premiums Received in Advance	12,200
TOTAL LIABILITIES	352,077
Policyholders' Surplus	<u>792,281</u>
TOTAL	<u>\$ 1,144,358</u>

Lebanon Clyman Mutual Insurance Company
Statement of Operations
For the Year 2001

Net Premiums and Assessments Earned	<u>\$339,429</u>
Deduct:	
Net Losses Incurred	327,340
Net Loss Adjustment Expenses Incurred	39,655
Other Underwriting Expenses Incurred	<u>159,149</u>
Total Losses and Expenses Incurred	<u>526,144</u>
Net Underwriting Gain (Loss)	<u>(186,715)</u>
Net Investment Income:	
Net Investment Income Earned	12,431
Total Investment Income	<u>12,431</u>
Net Income (Loss) Before Policyholder Dividends and Before Federal Income Taxes	(174,284)
Net Income (Loss) Before Federal Income Taxes	(174,284)
Federal Income Taxes Incurred	<u>4,900</u>
Net Income (Loss)	<u>(\$179,184)</u>

Lebanon Clyman Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2001

The following schedule is a reconciliation of surplus as regards policyholders during the period under examination as reported by the company in its filed annual statements:

	1997	1998	1999	2000	2001
Surplus, beginning of year	\$1,128,896	\$945,486	\$894,306	\$884,424	\$976,171
Net income	(168,624)	(88,626)	(3,008)	57,766	(179,184)
Net unrealized capital gains or (losses)	(9,495)	34,288	(1,801)	31,702	(6,887)
Change in non-admitted assets	(5,291)	3,158	(5,073)	2,279	2,181
Other gains and (losses) in surplus:					
Surplus, end of year	<u>\$945,486</u>	<u>\$894,306</u>	<u>\$884,424</u>	<u>\$976,171</u>	<u>\$792,281</u>

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2001 is accepted.

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. Page 2 Articles and Bylaws—It is recommended that all amendments to the company's articles and bylaws be filed with the Office of the Commissioner of Insurance.

 Action—Compliance.
2. Page 16 Fidelity Bond and Other Insurance—It is again recommended that the fidelity bond be maintained for all necessary persons as required by s. Ins 13.05 (6), Wis. Adm. Code.

 Action—Compliance.
3. Page 16 Reinsurance Contract Provisions—It is recommended the company issue reinsurance ceding slips which accurately reflect the company's net exposure as listed in the annual statement, general interrogatory number four.

 Action—Compliance.
4. Page 17 Accounts and Records—It is recommended that the company annually print and retain copies of its reports pertaining to its premium accounting detail activity for all years which have not yet been examined, if such reports cannot be reproduced in hard copy within a reasonable period of time at the request of the examiners.

 Action—Compliance.
5. Page 18 EDP Environment—It is recommended that the company establish a procedure in which the computer system is backed up at least weekly and the backed-up data is kept in a safe place separate from the location where the computer is kept.

 Action—Compliance.
6. Page 24 Net Unpaid Losses—It is recommended that the company adopt procedures for timely settlement of claims, in compliance with s. Ins 6.11 (3) (a) 2, Wis. Adm. Code.

 Action—Compliance.

Current Examination Results

Corporate Records

The minutes of the annual meetings of policyholders and meetings of the board of directors and any committees thereof, were reviewed for the period under examination and also for the subsequent current period.

Biographical data relating to company officers and directors has been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

The company has executed formal written agreements with its agents. The contracts include language indicating the agent will represent the company's interests "in good faith."

Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination with no apparent conflicts being noted.

Fidelity Bond and Other Insurance

The company is afforded coverage under the terms of the following bonds or contracts and has complied with s. Ins 13.05 (6), Wis. Adm. Code, which sets forth the minimum requirements for fidelity bond coverage:

Type of Coverage	Coverage Limits
Worker's Compensation	\$100,000 each accident 500,000 policy limit 100,000 each employee
ICPL and D&O	1,000,000, 5,000 deductible
Commercial Liability	1,000,000 general and aggregate 1,000 medical payments 25,000 medical each accident 500,000 bodily injury/property damage liability 1,000 medical payments each person 500,000 medical payments each accident
Fidelity Bond Coverage	250,000

Underwriting

The company has a written underwriting guide. The guide covers all the lines of business that the company is presently writing.

The company has a formal inspection procedure for both new and renewal business. All new applications and a sampling of renewal business is inspected by committee members independent of the risk under consideration and review.

Claims Adjusting

The company has an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. The function of this committee is to adjust or supervise the adjustment of losses.

Accounts and Records

The examiners' review of the company's records indicated that the company is in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is maintained
2. A proper cash receipts journal is maintained
3. A proper cash disbursements journal is maintained
4. A proper general journal is maintained
5. A proper general ledger is maintained

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2001.

The company is audited annually by an outside public accounting firm.

EDP Environment

Company personnel were interviewed with respect to the company's Electronic Data Processing environment. Access to the computer is limited to people authorized to use the computers. Company personnel back up the computers weekly and the backed-up data is kept off-site. A manual which describes how to use the company's software and outlines the steps to complete specific tasks assists in the continuity of operations for seldom-used applications, training, or when staff turnover occurs. The company has manuals documenting the use of its software.

Disaster Recovery Plan

A disaster recovery plan identifies steps to be performed in case the company loses a key employee, is not able to access its computer, information on its computer was lost, or the office building was destroyed, to name a few contingencies. The company has developed a disaster recovery plan. The company's disaster recovery plan appears to be adequate.

Invested Assets

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

- (1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and
- (2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the presence and signature of at least 2 officers, directors or employees of the company.

The company is in compliance with these requirements.

Investment Rule Compliance

The investment rule for town mutuals allows a company to invest in common stocks, common stock mutual funds, and other higher risk investments (referred to as "Type 2") provided that the town mutual has a sufficient amount of lower risk investments (referred to as "Type 1"). A town mutual may invest in Type 2 securities only if it already has sufficient Type 1 investments. Type 1 investments must equal or exceed the greater of items 1, 2, or 3.

1. Liabilities plus \$300,000	\$652,077
2. Liabilities plus 33% of gross premiums written	541,465
3. Liabilities plus 50% of net premiums written	524,586
4. Amount required (greater of 1, 2, or 3)	652,077
5. Amount of Type 1 investments as of 12/31/2001	<u>645,736</u>
6. Excess or (deficiency)	<u>(6,341)</u>

The company does not have sufficient Type 1 investments.

The investment rule prescribes that a town mutual shall divest any investment which does not comply with the rule within three years of its noncompliance, unless the Commissioner permits a longer period or requires a shorter period. The company became Type 1 deficient due to the increase in liabilities during 2001, and has been instructed to only invest in Type 1 assets until it becomes Type 1 sufficient again and to use proceeds from Type 2 investments to invest in Type 1 assets.

ASSETS

Cash and Invested Cash

\$238,312

The above asset is comprised of the following types of cash items:

Cash in company's office	\$ 50
Cash deposited in banks-checking accounts	2,478
Cash deposited in banks at interest	<u>235,784</u>
Total	<u>\$ 238,312</u>

Cash in the company's office at year-end represents the company's petty cash fund. A physical count was made by the examiners during the course of the examination and the balance reconciled to year-end.

Cash deposited in banks subject to the company's check and withdrawal consists of one account maintained in a local bank. Verification of checking account balances was made by obtaining confirmations directly from the depository and reconciling the amounts shown thereon to company records.

Cash deposited in banks represents the aggregate of eleven deposits in seven depositories. Deposits were verified by direct correspondence with the respective depositories and by an actual count and inspection of certificates and/or passbooks. Interest received during the year 2001 totaled \$18,092 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 4.85% to 7.0%. Accrued interest on cash deposits totaled \$2,960 at year-end.

Book Value of Bonds

\$402,284

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2001. Bonds owned by the company are located in a safety deposit box at a local bank.

Bonds were physically inspected by the examiners. Bond purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in bonds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Interest received during 2001 on bonds amounted to \$26,091 and was traced to cash receipts records. Accrued interest of \$6,725 at December 31, 2001, was checked and allowed as a nonledger asset.

Stocks and Mutual Fund Investments**\$443,917**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2001. Stocks owned by the company are located in a safety deposit box in a local bank.

Stock certificates were physically examined by the examiners. Stock and mutual fund purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in stocks and mutual funds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Dividends received during 2001 on stocks and mutual funds amounted to \$4,452 and were traced to cash receipts records. There were no accrued dividends at December 31, 2001.

Book Value of Real Estate**\$39,864**

The above amount represents the company's investment in real estate as of December 31, 2001. The company's real estate holdings consisted of its home office building located at N1803 Main Street in Lebanon, Wisconsin.

The required documents supporting the validity of this investment were reviewed and were in order. Adequate hazard insurance was carried on the real estate and contents as noted under the caption, "Fidelity Bond and Other Insurance." The company's investment in real estate and related items was in conformance with the Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers. Real estate depreciation is calculated using the straight-line method.

Agents' Balances or Uncollected Premiums**\$5,300**

The above ledger asset represents the amounts due from agents or policyholders which are not in excess of 90 days past due at year-end. A review of individual agent's accounts verified the accuracy of this asset.

Investment Income Due and Accrued**\$9,685**

Interest due and accrued on the various assets of the company at December 31, 2001, consists of the following:

Cash	\$2,960
Bonds	<u>6,725</u>
Total	\$9,685

Electronic Data Processing Equipment**\$3,857**

This asset consists of three computers, two of which were acquired within the past two years and were appropriately depreciated.

Fire Dues Recoverable**\$ 63**

This asset represents the fire department dues recoverable at December 31, 2001. The examiner reviewed the company's fire department dues calculation and found this asset to be correctly calculated.

Federal Income Tax Refund Receivable**\$1,076**

This asset represents the overpayment of federal income taxes. The examiner reviewed the federal tax return and found this asset to be correctly stated.

Equipment, Furniture, and Supplies**\$ 0**

This asset consists of \$6,655 of furniture and fixtures owned by the company at December 31, 2001. In accordance with annual statement requirements, this amount has been deducted as an asset not admitted.

LIABILITIES AND SURPLUS

Net Unpaid Losses

\$101,000

This liability represents losses incurred on or prior to December 31, 2001, and remaining unpaid as of that date. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule. The difference was not considered material for the purposes of this examination.

	Company Estimate	Examiners' Development	Difference
Incurred But Unpaid Losses	\$152,906	\$110,685	\$42,221
Less:			
Reinsurance Recoverable on Unpaid Losses	<u>51,906</u>	<u>11,106</u>	<u>40,800</u>
Net Unpaid Losses	<u>\$101,000</u>	<u>\$ 99,579</u>	<u>\$ 1,421</u>

The examiners developed this liability by totaling actual loss payments made through the development period on those losses incurred on or prior to December 31, 2001. To the actual paid loss figure of \$83,863, there was added an estimated amount for those 2001 and prior losses remaining unpaid at the examination date of \$26,822. Reserves for property and nonproperty losses that were known at year-end appear to be sufficient. Reserves for IBNR (incurred but not reported) property losses also appear to be sufficient. However, there was no reserve established for IBNR nonproperty losses at year-end. Since the company retains liability on each nonproperty loss, a reserve should be established for nonproperty losses reported subsequent to year-end. It is recommended that the company establish a reserve for nonproperty losses incurred but not reported at year-end.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and all claims which were denied during the examination period. The review indicated that claims are investigated and evaluated properly and that payments are made promptly and in accordance with policy provisions upon the submission of a proper proof of loss. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is maintained.
2. Claim files contained sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were properly signed.

Unpaid Loss Adjustment Expenses**\$ 4,800**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2001, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability was to multiply the number of open claims by the cost of a director-adjusted claim, and in addition to take into consideration the portion of claims for which it would be necessary to use an outside adjuster.

The examiners' analysis of expenses incurred in the current year related to the settlement of prior year losses, as well as estimates of amounts necessary to settle any prior losses remaining unpaid at the examination date, determined this liability to be adequately stated.

Commissions Payable**\$ 4,550**

This account consists of amounts due to agents for 2001 premiums. The company collects premiums directly from the insureds and then remits the commissions to the agents. Subsequent cash disbursements verified the above balance.

Unearned Premiums**\$200,547**

This liability represents the reserve established for unearned premiums in compliance with s. Ins 13.08 (3), Wis. Adm. Code. This reserve was established by a computer software program which calculates the unearned premium on a daily pro rata basis. The examiners found this system to be accurate through their testing of unearned premium calculations.

Reinsurance Payable**\$ 8,998**

This liability consists of amounts due to the company's reinsurer at December 31, 2001, relating to transactions which occurred on or prior to that date.

The above amount is for premium the company owes its reinsurer for its 2001 reinsurance contract.

Class A	\$ 5,344
Class C-1	2,700
Class C-2	1,775
Class D/E	5,000
First Surplus	4,916
First Surplus Commission	<u>(737)</u>
Total	\$18,998

Subsequent cash disbursements and reinsurance accountings verified the amount of this liability.

Amounts Withheld for the Account of Others**\$ 1,430**

This liability represents employee payroll deductions in the possession of the company at December 31, 2001. The company also incorrectly included the employer portion of FICA and Federal withholding in this liability. Because the amount was not material, no reclassification will be made. However, it is recommended that the employer portion of FICA and Federal Withholding be recorded in the Payroll Taxes Payable account.

Accounts Payable

This liability represents various expenses the company has incurred prior to December 31, 2001, which had not yet been paid. Supporting records and subsequent cash disbursements found December bills paid in January which were not included in accounts payable. Because the amount was not material, no adjustment will be made. It is recommended that December and prior bills that are paid in January be included in the accounts payable account.

Accrued Property Tax Payable**\$ 1,342**

The examiners reviewed a copy of bill and subsequent payment to verify this liability.

Premiums received in Advance**\$12,220**

This liability represents premiums received for policies with effective dates in the subsequent year. An examination of this account showed this amount to be reasonably stated.

V. CONCLUSION

Lebanon Clyman Mutual Insurance Company is a town mutual insurer with an authorized territory of ten counties. The company has been in business over 114 years providing property and liability insurance to its policyholders.

Since the prior examination as of December 31, 1996, the company's assets have decreased 23.5% to \$1,144,358. Liabilities have decreased 4.3% to \$352,007. Surplus has decreased 29.8% to \$792,281. The company had losses four out of the last five years. This year's loss was (\$186,715), the second largest in the period under examination.

This examination resulted in three recommendations. The recommendations are listed in summary form on the following page.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 21 - Net Unpaid Losses—It is recommended that the company establish a reserve for nonproperty losses incurred but not reported at year-end.
2. Page 22 - Amounts Withheld for the Account of Others—It is recommended that the employer portion of FICA and Federal Withholding be reported in the Payroll Taxes Payable account.
3. Page 23 Accounts Payable—It is recommended that December and prior bills that are paid in January be included in the accounts payable account.

VII. ACKNOWLEDGMENT

The courteous cooperation extended to the examiners by the company's personnel is hereby acknowledged.

In addition to the undersigned, Sarah Haeft of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Respectfully submitted,

Jean Suchomel
Examiner-in-Charge